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AN INSIGHT INTO THE FUTURE OF CHARITY FUNDING IN THE NORTH EAST





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AN INSIGHT INTO THE FUTURE OF CHARITY FUNDING IN THE NORTH EAST

Professor Cathy Pharoah

with

Professor Tony Chapman
Rezina Choudhury



Acknowledgements

Many people have helped to make this research possible. We would particularly like to thank the Northern Rock Foundation for advice, information and practical help. We are also indebted to the agencies in the North East which were willing to provide information and take part in interviews, including Big Lottery, Community Foundation Tyne & Wear and Northumberland, County Durham Community Foundation, Durham County Council, Millfield House Foundation, Northern Rock Foundation, Northumberland County Council, Tees Valley Community Foundation and Voluntary Organisations Network North East (VONNE). We would like to thank David Kane (NCVO) for making updated figures on charities in the North East available.

The many charitable organisations which were willing to take part in the survey, and particularly those which also agreed to further interviews, in spite of the demands on their time and resources, deserve special gratitude.

The charity survey was carried out by GfK NOP between 25 November and 13 December 2013 on behalf of Cass Business School. A sample of 182 small to medium-sized charities in the North East region, working in community, youth and welfare, were interviewed by telephone. GfK NOP also carried out in-depth follow-up interviews with a sub-set of survey participants. Finally we would like to thank Margo Willison, Centre for Charitable Giving and Philanthropy at Cass Business School, for help with carrying out additional charity interviews.

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About the Garfield Weston Foundation

The Garfield Weston Foundation, which commissioned the research, is a family-founded, grant-making trust which has been supporting charities across the UK for over half a century and makes grants of around £50million annually. In recent years the Foundation noted a decline in the number of funding applications from the North East, despite there being need in the area. This research was commissioned to provide specific data to inform the Foundation's work in the region. The Foundation's proactive strategy for the North East is now reversing a declining trend and continues to be monitored. The North East is not the only region where this trend is evident, and the learning from the Foundation's activity in the North East will also inform how the Garfield Weston Foundation might proceed in other areas of the country.

The authors

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About CGAP at Cass

The Centre for Charitable Giving and Philanthropy (CGAP) at Cass Business School is the first academic centre in the UK dedicated to research on charitable giving and philanthropy. Its research focuses on individual and business giving, social redistribution and charitable activity, and the institutions of giving, particularly through foundations. CGAP is dedicated to knowledge-sharing and engagement across academic, practice and policy communities. It receives funding from the Economic and Social Research Council (ESRC), and philanthropic sources. See www.cgap.org.uk

EXECUTIVE SUMMARY

Context and aims

The focus of this report is understanding current funding resources in small to medium-sized voluntary organisations in the North East (NE), and what funders and others can do to help build a sustainable future funding base. It presents a unique picture of current income trends amongst frontline local voluntary organisations. Recent research has shown the negative effects of statutory spending cuts on local voluntary incomes, staffing and services in North East England. The region scores highly on measures of deprivation, and while some areas have seen recent growth, unemployment is high and many families are at the sharp end of economic and austerity pressures. It is a challenging environment for fundraising, yet paradoxically large charitable funders are experiencing low levels of funding applications. The findings are likely to apply to several other areas.

Details of the study

To ensure a balanced picture of current funding issues, the research had four strands consisting of: a review of existing research; a 20-minute telephone survey of 182 organisations; follow-up interviews with a representative set of 22 survey participants; in-depth interviews with senior staff in nine public and voluntary sector agencies in NE region. The focus of the survey was organisations with incomes below £3million per annum, working in frontline areas in community, youth or welfare. Fieldwork was carried out in November-December 2013, and a satisfactory response rate of 48% was achieved in a representative sample.

Main findings

Highly localised focus and uneven distribution of voluntary activities Three-fifths of these organisations served their local neighbourhood (57%), with almost half serving their council area and two-fifths the region. Localities with some of the highest deprivation in the UK had the least charities serving them, including Darlington, and Redcar and Cleveland. Weak voluntary infrastructure might explain low funding applications.

Fewer resources and increased demand The vast majority (86%) receive funding from at least one government source, and over three-fifths said income had been directly affected by government spending cuts. A decrease in their previous year's annual income was reported by almost two-fifths (38%). There is an emerging polarisation between organisations in terms of adaptation to the new funding context. One-quarter expect income to grow, with 30% anticipating further decrease. At the same time 57% reported an increase in service demand, and are prioritising frontline services. A worrying 44% said there had been a reduction in resources for fundraising. This could also explain low levels of foundation applications.

An at-risk group Organisations in the middle of the income range clearly emerged as vulnerable. They were the most likely to expect decreasing income, and to report a decrease in income generation resources.

Diversity in income, but few main sources A surprising diversity of income streams was found, with an average of six funding sources. Foundations are frequent funders, in spite of low rates of application to large national bodies. Diversity spreads risk, but also means fundraising resources may be stretched widely and thinly, preventing specialisation. This could also explain low applications to national foundations.

Mixed stages in planning for change The majority of organisations (77%) think their funding mix is not right, or right for now but will need to change in future. They were at different stages of readiness to tackle this. One-third had taken no or few steps towards change, while two-thirds said review or change was under way.

Few resources to invest in change Most organisations had confidence that their professional resources were sufficient for introducing change in the funding mix, including culture (74%), knowledge and information (79%), skills and expertise (78%) and contacts and networks (80%), but overwhelmingly felt they lacked the financial and human resources. The Catch 22 is that ability to change does not get 'road-tested' if organisations do not spend on it, and they cannot make a well-evidenced case to funders for investment.

Local allegiances Fundraising advice and information was most frequently accessed from local agencies, and local foundations were much more likely to be approached than large nationals (except where known in the region.) Organisations lacked confidence with funders who did not know them, and were reluctant to invest scarce resources in uncertain applications. This is another possible reason for low foundation applications.

Conclusions and next steps

Organisations' awareness of, and ability to seek, potential support from foundations is not an isolated issue and is connected to many other significant challenges arising for them from the current environment. Key issues include sector capacity and infrastructure region-wide, the stretch on internal resources to meet the changes in current demand and funding, and the time, new skills/expertise/relationships needed to put funding and service delivery on a new footing. Organisations are at different stages, and currently need different kinds of support. Some are well ahead, and have made a successful transition from which future growth can be encouraged. Others are not so far ahead in their thinking or planning. Ways in which funders and others could provide support fall into three groups.

General foundation measures

- establishing more connections with potential applicants at regional and localised levels to build knowledge and confidence around applying and break down barriers;
- reviewing application procedures and rules not seen as helpful such as criteria around reserves, the complexity and detail required in application forms, demands for detailed outcomes data, slow response times, rules around what can be funded, and part-funding of projects;
- exploring options for targeting support towards organisations in geographical areas whose existing voluntary infrastructure seems weak, and/or ways of encouraging new infrastructure.

Core and development support

- responding flexibly to the range of core and development support needs identified by organisations in the area, and re-balancing some funding away from specific project delivery and outcomes;
- access to a flexible and varied range of income generation advice potentially including 'safe' places to develop or evaluate embryonic ideas, or review the progress of new initiatives already in place; expertise in business plans and budgets; market research; analysis of skills base, organisational assets and potential for service development; help and support for partnership or merger;
- access to further training and support around finance and budgeting;
- locally-based trustee and Board development in relation to funding and income generation;
- mentoring and knowledge-sharing by organisations which have introduced successful change;
- building the skills and knowledge base around income generation from philanthropic sources;
- shared initiatives in knowledge and skills-building, and innovative approaches.

Increased grant funds

Transition and development funding, led by organisational need, could be invaluable in ensuring that good organisations get a better chance to continue to meet needs within their communities in the longer-term. In addition to development funding, more support for basic community services is needed in a region where the sector is under-invested. Some foundations are already addressing the needs of the area, but awareness should be raised amongst others. A relevant area for charities to consider is how they can generate income on a sustainable basis to support their activities.

1. INTRODUCTION

Focus of the report

The focus of this report is a better understanding of funding resources in small to medium-sized local voluntary organisations in North East England. How might these resources be developed sustainably to meet needs now and in the future? Against a background of sector-wide mapping studies, this report presents the results of research which uniquely looks at current and future income generation in the localised social care voluntary sector. While the specific lens of the study is local organisations in community, youth and welfare in the NE, its findings are likely to be widely applicable to other areas.

Context for the research

Recent economic pressures in the UK have led to a renewed emphasis on the power of communities to address needs through local voluntary action. However, voluntary activity and the funding which supports it is unevenly spread, as several reports have shown. (NCVO, 2008¹; McKenzie and Pharoah, 2010²) Recent research in the NE has provided evidence of the negative effect of statutory spending cuts on local voluntary incomes, staffing levels and services. (VONNE et al, 2013³) Paradoxically, however, several large charitable funders are experiencing low and falling levels of funding applications from this area compared with others, and are concerned about the future availability of voluntary support for people suffering the sharp end of economic pressures in the NE. The research reported here was commissioned by the Garfield Weston Foundation to explore the current funding experience of small-medium organisations in the NE, how they are responding to the new funding environment, and steps which might strengthen the funding base.

Issues affecting funding demand in NE

Explanations for low applications to charitable foundations could lie in internal factors related to organisational resources, external factors related to the current policy and economic trends shaping the funding environment, factors affecting local need and demand, or the combined effect of all three. (See Fig. 1) Key issues might include declining or inappropriate funding sources, reduced fundraising capacity due to spending cut-backs, low levels of expectation or aspiration, a more competitive statutory funding environment as welfare provision is increasingly open to new private and public suppliers, lack of access to appropriate market information or to support for essential organisational transition and change. A dangerous vicious cycle may be emerging where reduced organisational resources suppress new investment in fundraising and income generation, resulting in further reductions to resources and investment. Economic and austerity pressures may be making it particularly difficult for smaller organisations to keep pace with new policy opportunities for a stronger local role (The Localism Act 2011), bidding for public service contracts (Open Public Services), capitalising on the sector's potential competitive advantage in quality service provision (The Social Value Act) or accessing the emerging social finance market for more entrepreneurial ventures.

¹ NCVO, (2008). *UK Voluntary Sector Almanac 2008*. NCVO

² McKenzie, T and Pharoah, C, (2010). *UK household giving – new results on regional trends 2001–08*. CGAP

³ VONNE et al, (2013). *Surviving or Thriving*. VONNE

Figure 1 Inter-relationship of factors influencing income generation



Impact of local social and economic environment

The social and economic environment in the North East region is a challenging one for voluntary income generation and fundraising. At 2.6million, its population is the smallest of the English regions, has the lowest growth, and is comparatively old (the median age is 41.5 years). The NE makes the smallest economic contribution of the English regions, and gross weekly earnings for full-time employees are joint lowest with Wales. It has the highest unemployment rate (10.3% compared with 7.8% UK-wide), and the highest proportion of children living in workless households, at almost one-fifth. (ONS, 2013⁴) How voluntary organisations will find the resources to fund their activities is a pressing question because, as VONNE (Voluntary Organisations' Network North East) clearly highlights.

It is not the NE Third Sector that faces the biggest challenge in the months and years ahead, it is the beneficiaries the sector supports... the question needs to be asked, who will be there to support them?

(VONNE, 2013, *ibid*)

The new economic strategy published by the North East Local Enterprise Partnership highlights recent economic and employment growth in the region, particularly in financial, professional, business services and automotive sectors, but also barriers including limited funding for business growth, slow response to new market opportunities, skills shortages, and the costs and uncertainties of innovation and commercialisation. (NELEP, 2013⁵) If such factors challenge the local business sector, they also exist for small community enterprise and voluntary activities. The fast-growing wealth in some parts of the region represent a new opportunity for philanthropic funding (Barclays Wealth, 2011⁶), but survival and growth will mean organisational change. For some organisations the new opportunities build directly on existing strengths, and the process of transition is inevitably easier than for others. This report explores how small-medium voluntary organisations might be helped to realise potential, and build a stronger future resource base for meeting needs in the NE.

⁴ Office for National Statistics (ONS), (October 2013). *Region and Country Profiles, Key Statistics and Profiles*.

⁵ NELEP, (Dec 2013). *Draft North East Strategic Economic Plan*.

⁶ Barclays Wealth, (2011). *Barclays Wealth 2011 UK Wealth Map*.

Methodology

General objectives of the research

Following the model in Figure 1, the research was designed to explore external and internal factors potentially impacting on current and future income generation. Research topics included:

- organisations' income, activity, geographical remit, and funding sources;
- current funding experience, outlook and mix;
- trends in service demand;
- approaches to fundraising and income generation and engagement in planning and review;
- role of Board and trustees in income generation and
- resources for change and new initiatives.

Research approach

To ensure a balanced perspective on current funding issues, the research has four strands:

- a review of the considerable research already carried out in the NE;
- a structured 20-minute telephone survey of organisations;
- follow-up in-depth interviews with 22 representative survey participants, covering those expecting income increase, decrease or stability, with single or multiple funding sources at national, regional, council or neighbourhood levels, and incomes from £200k-£3million and
- interviews with senior executive staff in nine public and voluntary sector infrastructure agencies⁷.

Survey samples and response rates

The focus of the survey was NE organisations with incomes below £3million, working in frontline community, youth or welfare services. Telephone interviews were used to help ensure quality information, and maximise responses from small or 'hard-to-reach organisations'. As the target of the research is a very specific group of organisations, a purposive approach was taken to identifying the sample population, and it included organisations within the selection criteria with any previous contact with Garfield Weston Foundation, and an equivalent sample selected randomly from the Charity Commission Register. After excluding screening failures, incorrect phone numbers and those unavailable during the fieldwork period of November-December 2013, a final set of 379 organisations was contacted, of which 182 agreed to interview, a 48% response rate (67% within some sample categories). These were split evenly between 'previous contact' (96), and 'non-contact' (86) groups.

Structure of the report

The findings are organised into sections by themes, each drawing on relevant data from across all four strands of the research. The report begins with an overview of the funding climate, and then identifies the features and funding of the organisations which are its focus. Subsequent sections deal with recent funding experience and future outlook, sources and profile of local funding, service demand trends and the funding mix, approaches to income generation and fundraising, resources for change and new approaches and models, conclusions and implications for next steps. Unless otherwise stated, all quotes are from charity interviewees.

⁷ Northumberland County Council, Durham County Council, Community Foundation Tyne & Wear and Northumberland, County Durham Community Foundation, Tees Valley Community Foundation, Millfield House Foundation, Big Lottery, Northern Rock Foundation, Voluntary Organisations Network North East (VONNE)

2. THE FUNDING CLIMATE AND THE SURVEY ORGANISATIONS

The general funding climate



The cuts that have been made to the council are big in this area: I don't know how they stack up against other areas but, from what I understand, a lot of Northerners have taken a really big hit in terms of government grants and the councils. There's a lot less money there, and that's one of the main places organisations like ours would look to for commissioned work".

This section briefly overviews the general funding climate in NE, and the current 'shape' of funding for voluntary community, youth and welfare activities. It draws on previous research and the messages which came out of the stakeholder interviews in this study. Statutory funding has been shown particularly prevalent in NE, with more grant than contract funding than the national average⁸. Because voluntary organisations have particularly been funded through statutory agencies, it may be particularly hard for them to adapt to the new environment of reduced social care funds, and they are taking more time to do this.

Larger community, youth and welfare organisations in the NE have faced an accumulation of big programmes ending or reducing, such as Neighbourhood Renewal Fund, New Deal for Communities, and Housing Market Renewal Pathfinders, and the structural changes to the Regional Development Agency, and Learning and Skills Council, whose support was often matched with European Social Fund awards. There are now fewer opportunities to engage in large consortium-led programmes, the exception being new health and employment/skills/employability initiatives, where the prime contractor is often a large national charity or for-profit business. Some local voluntary sector consortia are emerging, but are as yet embryonic. There are fears about 'nationals' taking contracts from local organisations, though some national charities have long-standing associations with the region, or permanent offices in the locality.

Local authorities continue to be significant grant funders to smaller organisations in community, youth and welfare, particularly through small community grants distributed directly or through umbrella organisations. Local authorities' own services in youth have been reducing in recent years, and this may lead to additional pressure to replace or supplement services in the future, without any sense of new funding. Undoubtedly an environment largely shaped by major government funds is having to undergo significant transformation.



Local authorities are now only funding people who have critical, substantial social care needs. Two years ago we were receiving grant aid for 250 people from the council. Last year it was 42. So a lot of people have fallen out of the system, no longer funded for care from us."

Voluntary donations and grants Regional and national charitable foundations are seen as highly significant funders of voluntary community, youth or welfare services in the NE. Youth needs have always received more support from charitable and corporate funders than the general public⁹, which is not always sympathetic to them. Key funders include Big Lottery, Northern Rock Foundation, Lloyds TSB Foundation, Children in Need, and Comic Relief. Large foundations have not reduced their support, but Northern Rock Foundation funds have declined, and others have cut back because of lower incomes. Transition to alternative funders is challenging for organisations which have not needed to consider this before.

⁸ Kane et al (2010). *Mapping registered Third Sector Organisations in the North East*, Third Sector Trends Study, Northern Rock Foundation.

⁹ Harrow, J and Pharoah, C. (2008) *Rethinking recession*. Report to the Prince's Trust.
www.princes-trust.org.uk/pdf/Princes%20Trust%20Rethinking%20Recession%20may09.pdf



We've been going for 18 years....we've not had problems until recent years. The climate in general has changed. We've seen a (core trust) grant go from £30k to £3k. It's the Trust's investments, they can't get returns of their capital, so it's a 'knock-on' effect."

Some national corporate giving programmes feed funds into local youth organisations, for example RBS, O2/ Telefonica, Virgin Money and Starbucks, but support is sometimes for specific or youth-led initiatives, not existing programmes. Large organisations like the Princes Trust, UK Youth, Guides, Scouts and Cadets are also important providers of youth services, which sometimes channel funds from national programmes to local organisations (eg the government-funded National Citizen programme, Social Action Fund), but there is less similar support for welfare and community issues. One opportunity is to offer confidence-building or employability strands to other programmes in environment, or art and culture, singly or in partnership. New opportunities have also arisen through the recent strengthening of locally-generated philanthropy, partly through community foundations which have always had good relationships with local individual or corporate donors. Community foundations also sometimes distribute funds for other foundations and have attracted new money through this route recently. The next section of the report looks at how wider statutory and philanthropic funding trends actually play out amongst small-medium organisations in NE.

Small-medium organisations in community, youth and welfare

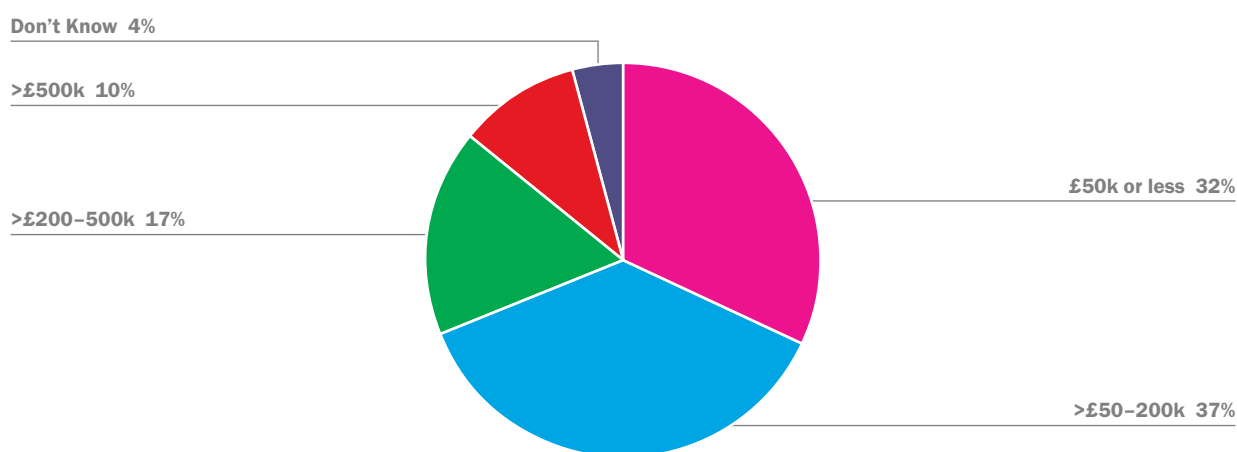
The report begins with the findings of the survey of small-medium organisations in community, youth and welfare, where a balanced representation of income, activity area, and geographical focus was achieved.

(Note: The base for percentages in all tables/graphics is 182 organisations, except where otherwise stated. In a few graphics percentages do not quite add up to 100 because a tiny number of 'Don't know' responses are not presented.)

Income, activity and service area

Incomes of the organisations in the survey ranged from under £1k to £3.3million, and their combined income was £33million, around 4 to 5% of total third sector income estimated for the NE. (Kane et al, 2010, *ibid*)

Figure 2 Income breakdown of charities in the survey

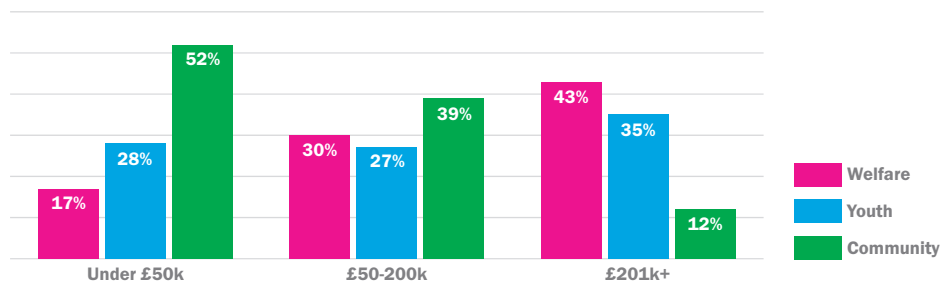


Incomes in the sample were weighted towards smaller organisations, reflecting the general sector skew. Around one-third were below £50k per annum, one third between £50k-£200k, and one-third £200k-£3million. (Fig. 2) In all, 86% were below £500k, close to the Charity Commission's 88%. The survey's activity areas were fairly evenly represented, with a slight bias to community. It proved hard to identify sufficient youth projects. (Fig. 3)

Figure 3 Breakdown of activity areas across the survey sample

| | Number | % |
|---|-----------|-----------|
| Community facilities and development (eg transport, community centres, education, advice) | 67 | 37 |
| Young people (eg at risk, leisure, groups, education, training, personal health/well-being) | 53 | 29 |
| Welfare (eg families, domestic violence, elderly women, children, special needs, minorities, accommodation, homelessness, physical and mental health) | 51 | 28 |
| Other | 11 | 6 |

Figure 4 Breakdown of activities by income-band



Volunteers and paid staff

Staffing reflects the small scale of organisations. Most had volunteers (91%), with almost one-fifth volunteer-run. (18%) One NE study (Chapman, 2013¹⁰) has found 45% had less than 10 volunteers; just 9% had over 50 (excluding Boards.) It also found over one-quarter (27%) expected volunteers to increase, in spite of national evidence of flat trends. There was an even spread of paid staff, with an average five full-time equivalent. (Fig. 5) Nationally 31% of sector staff work in places of less than 10¹¹, against 84% in the sample.

Figure 5 Breakdown of paid staff

| Number | % |
|----------------|-----------|
| 0 | 18 |
| 1 | 23 |
| 2-3 | 16 |
| 4-6 | 17 |
| 6-10 | 10 |
| Over 11 | 16 |

Profile of survey organisations

The very smallest organisations are those providing community facilities. (Fig 4) Although at the heart of communities' own self-organised activities, they often have difficulty raising funds for repairing roofs and minibuses. Youth provision is mixed, with organisations across all income-bands, and likely to experience a range of different funding issues depending on what they do. The largest organisations tend to be in welfare, with a funding history rooted in statutory support. These organisations are more confident about the future. In supporting local community organisations, mission and size need to be considered together.

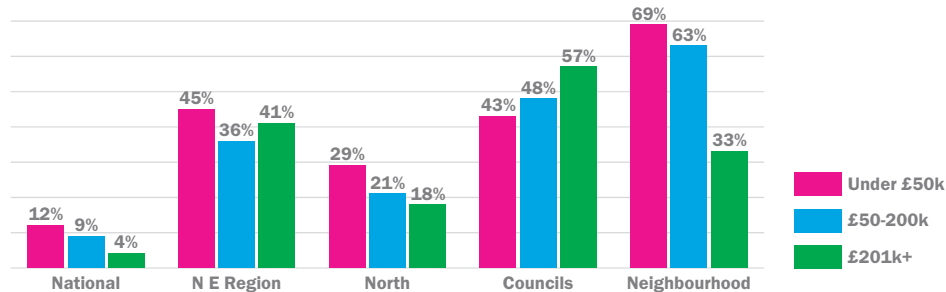
¹⁰ Chapman, A and Robinson, F, (2013). *The crystal ball: How do third sector organisations see their future? And what are they doing about it?* Northern Rock Foundation

¹¹ NCVO, (2012). *Civil Society Almanac 2012*

Geographical spread and local focus

A very strong local focus was found. (Fig. 6) All geographical levels were represented, international to neighbourhood, but most organisations have a regional or local remit. Two-fifths are region-wide (40%), almost half serve councils (48%), and 57% serve the neighbourhood (particularly those with incomes under £50k.)

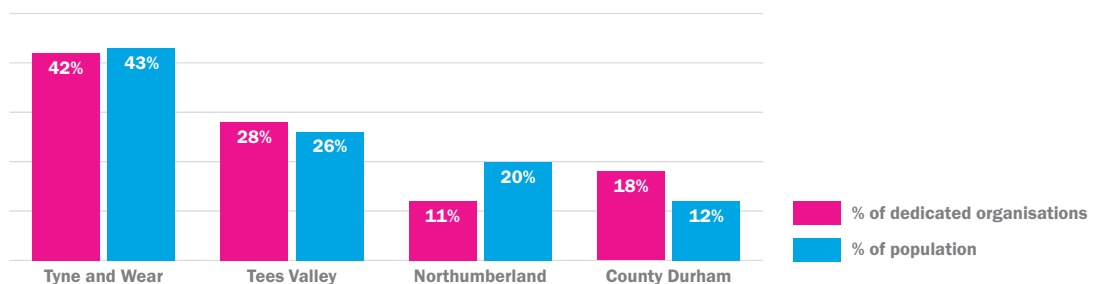
Figure 6 Comparison of income bands by their geographical remits



| | Number | % |
|--------------------------------|--------|-----|
| National/International | 20 | 11 |
| NE Region | 72 | 40 |
| North generally | 40 | 22 |
| Council areas | 67 | 48 |
| Neighbourhood | 104 | 57 |
| All *(base for %) | 303 | 100 |
| *Several areas could be chosen | | |

The share of organisations serving Tyne and Wear, and Tees Valley follow their population share, but rural Northumberland was under-represented and the more urban County Durham over-represented. (Fig. 7) Urban areas in NE have a concentration of high deprivation localities¹², and Tees Valley results are concerning. As found elsewhere (Kane et al, ibid), Redcar and Cleveland, Hartlepool and Darlington had the lowest numbers of organisations (4%, 5% and 5% compared with Durham county council at 18%), and they also have some of the most deprived areas in England. Deprivation in Darlington has risen, and Tees Valley is increasingly polarised between affluent and very poor. (TVU, 2010¹³) High deprivation coupled with weak voluntary activity could result in low grant applications, bringing down figures for the NE generally.

Figure 7 Comparison of shares of population and of voluntary organisations, by sub-region



¹² Chris Young, (2011). *The English Indices of Deprivation 2010*. NERIP

¹³ TVU, (2010). *Economic Strategy and Intelligence, Index of Multiple Deprivation 2010*

3. RECENT FUNDING EXPERIENCE AND FUTURE OUTLOOK

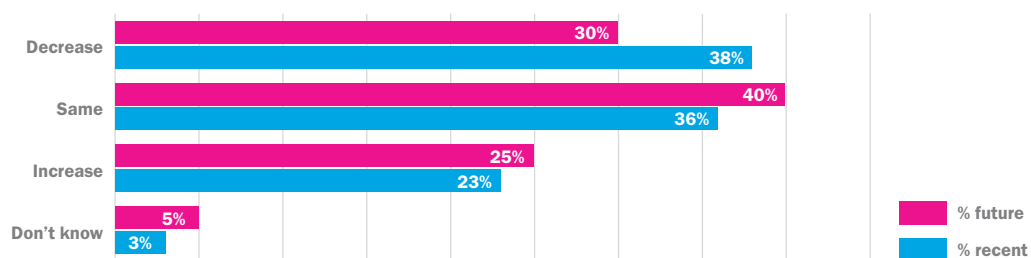
What are current income trends and future expectations?

There is always a certain amount of annual variation in sector income, with winners and losers, and accurate trends are difficult to assess. General sector information which helps to contextualise the findings of this study can be found in the previous sector mapping exercises and organisational surveys in the NE, commissioned by the Northern Rock Foundation (NRF)¹⁴. The most recent survey found that the proportion of organisations reporting a fall in annual income rose by 9% between 2010 and 2012 (from 13% to 22%), with large organisations considerably more affected than small. (Chapman, *ibid*) The majority said income had been stable (71%), but looking to the future, there was an increase in those who thought their income would fall, as well as in those envisaging growth (34%). This may be an indicator of an emerging polarisation in degree of successful adaption to the new funding environment.

How are such trends playing out in organisations which are the focus of this study? Consistently with the NRF studies, a significant (and larger) proportion said their income had fallen, 38%. (Fig. 8) This could reflect accumulating experience of income reduction, though also the different nature of the sample. Less than one-quarter (23%) of the organisations reported income growth in their most recent financial year.

Turning to future outlook, there was both a sizeable proportion of organisations expecting income to increase, as well as to decrease. Organisational outlook did not stray far from current experience. Of those who said income had stayed the same, 45% expected it to stay the same in the future; 57% of those experiencing a decrease expected a future decrease. These findings suggest that changing income expectations could be challenging.

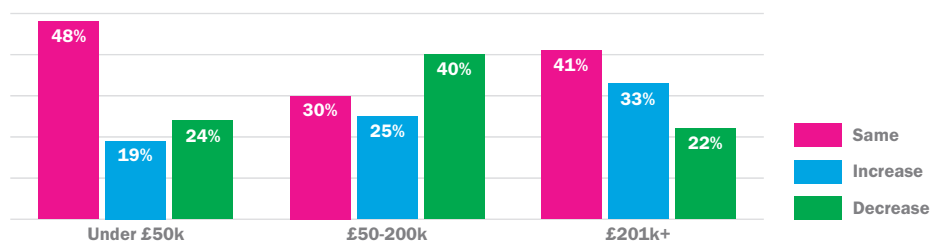
Figure 8 Changes in current income, and future expectations



Are some organisations at particular risk?

Expectation of a decreasing income is not evenly spread. (Fig. 9) The proportion of organisations expecting a decrease is similar for largest (>£200k) and smallest (<£50k), but is almost double for organisations at £50k-200k. This 'mid-band' are likely to have a few salaried posts, but lack the scale of the largest group.

Figure 9 Expectations of future income by income -band

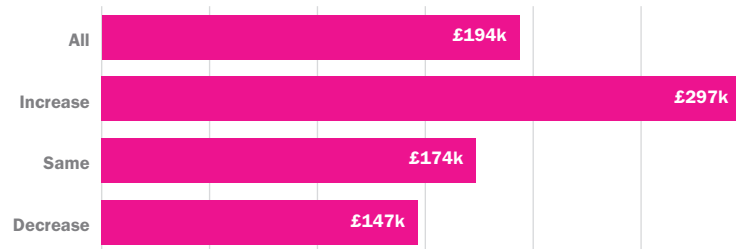


¹⁴ Research on the Third Sector as a whole in North East England can be found in the Third Sector Trends Study series of papers published by Northern Rock Foundation. <http://www.nr-foundation.org.uk/resources/third-sector-trends/publications/>

Further evidence that size is a risk factor in income expectation is that those expecting a decrease have a lower average income than those expecting an increase or no change. It is important to note, however, that it is not necessarily smallest organisations which are most at risk as they have no or little paid staffing. (Fig. 10)

Figure 10 Average income by future income expectations

In addition to size, source of income has also been shown as an important influence on level of confidence about the future. The NRF study found that expectations around income are broadly similar across sub-regions. However, the urban areas of Tyne and Wear and Tees Valley are more likely to expect that income will fall significantly, and this is probably due to a higher reliance on contracted public services and previous reliance on major government regeneration programmes in deprived urban areas.



4. SOURCES AND PROFILE OF LOCAL FUNDING

Income sources were explored in some detail to get a more fine-grained picture of funding at a localised level, and results revealed it has some distinct features. (Fig. 12) A surprising diversity and multiplicity of funding sources was found. Average number of funding sources was six. (Fig. 13) To generate an annual income of £50k-£200k from six different sources, however, suggests some organisations were spreading resources widely, and possibly thinly. Going for multiple sources is a way of spreading risk, especially in a difficult environment, but may prevent specialisation or consolidation, as reflected ruefully by one charity,



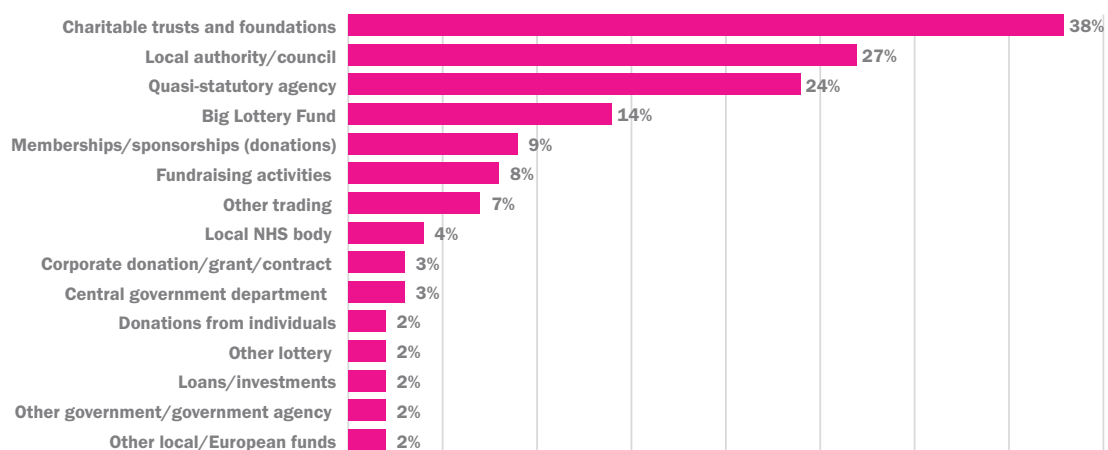
We're going to work with more council and voluntary services..when it comes to charitable trusts and fundraising, we will focus on more targeted fundraising rather than a scattered approach."

In terms of frequency, foundation funding was as key as that of local authorities to the local sector, and quasi-statutory funding almost as important as statutory. Most common sources of funding were:

- charitable trusts and foundations (76% of organisations);
- local authorities (73%);
- fundraising activities (69%);
- individual donations (68%) and
- membership subscriptions (44%).

Against this picture of diversity, it is important to understand which sources provided main funding. Although statutory funding is widespread, it proved a main source of funding in just over one-quarter of the sample, with quasi-statutory agencies a main source in 24%. Fundraising activities and donations are widespread but rarely main sources. (Fig. 11)

Figure 11 Main sources of funding (those providing one quarter or more of total income)



The detailed breakdown of current local income patterns by funding source is set out in Figure 12, and reveals clearly the particular pervasiveness of statutory funding streams, and the many funding routes, several of which can only be raising quite small sums. Main points are compiled in Figure 14.

Figure 12 Frequency of different income sources among local organisations

| Statutory/quasi-statutory | % |
|---|----|
| Local authority/council | 73 |
| Local NHS body (PCT, Community Services) | 23 |
| Other local agency (police, fire, partnerships, Local Enterprise Partnerships) | 23 |
| Central government | |
| (Cabinet Office, BIS, DCMS, DFID, CLG, DoH, DfES, DEFRA, DWP, Home Office) | 15 |
| Big Lottery Fund | 38 |
| European funds | 12 |
| Other lottery fund (eg Heritage) | 10 |
| Government-funded agency | |
| (Arts Council, Environment Agency, English Heritage, NESTA, regional funds) | 8 |
| Landfill tax | 5 |
| Other government/government agency | 5 |
| Voluntary/private | % |
| Charitable trusts/foundations | 76 |
| Fundraising activities (events, sponsorships, lotteries) | 69 |
| Donations from individuals (cash, cheques, online, text) | 68 |
| Membership subscriptions and sponsorships which are donations | 44 |
| Private companies | 36 |
| Legacies | 6 |
| Other | * |
| Other (eg rents, hiring out facilities) | 32 |
| Other trading (shops, café, cards, online, catalogue/sales of goods and services) | 29 |
| Investments/loans | 3 |

Given the high levels of frequency for most forms of funding, it is not surprising to see that even amongst the smallest community organisations there was an average of four sources. This result is another indicator of high local voluntary engagement, as most of these organisations had no or minimal paid staffing.

Figure 13 Average number of funding sources by income band

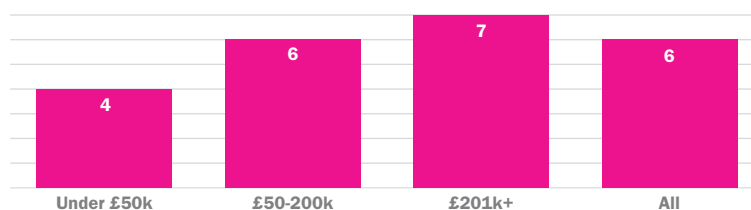


Figure 14 Summary of key points from the income analysis

| Key features of local funding | Detailed findings and results |
|---|--|
| Statutory funding is highly important for small -medium local organisations | <ul style="list-style-type: none"> 86% derive income from at least one government source 27% say local authorities are main source of income 9% say other statutory bodies are main source of funding |
| Government agency and quasi-statutory funding are widespread | <ul style="list-style-type: none"> more than half of the organisations are funded from quangos, partnerships, landfill tax and lottery funds while extending opportunities, these funds also increase exposure to current government spending policies |
| Lottery funding is very significant for local organisations | <ul style="list-style-type: none"> 38% report funding from Big Lottery 10% report income from other Lottery funds 14% say lottery funding was a main source of funding |
| Charitable foundations are key funders of local organisations | <ul style="list-style-type: none"> 76% get funding from foundations* |
| There is substantial diversity in local funding base | <ul style="list-style-type: none"> high numbers report some income from non-statutory, earned, business and individual sources experience of different sources may provide opportunity on which to build other fundraising options |
| Few income streams are main source of funds | <ul style="list-style-type: none"> although the funding base appears diverse, private voluntary donations (including legacies), and trading, did not feature as main sources development needed to get such sources to generate more |
| There are no main sources of funding to smallest organisations | <ul style="list-style-type: none"> just one-fifth mentioned trusts and foundations (21%), and just under one-fifth highlighted memberships (19%) income development might need individual tailoring |
| Fundraising events etc are common to organisations of all sizes | <ul style="list-style-type: none"> all sizes of organisation do fundraising activities/events; 64% in smallest, 75% in middle band, 73% in largest there may be opportunities to share knowledge, ideas, facilities, and events for fundraising |
| Many larger organisations (income £200k-£3m) have multiple income sources | <ul style="list-style-type: none"> organisations (£201k+) were much more likely to record an income than the smallest ones (<£50k) from: <ul style="list-style-type: none"> local authorities (88% compared with 57%) NHS bodies (49% compared with 9%) central government (33% compared with 3%) Big Lottery Fund (51% compared with 12%) corporates (59% compared with 14%) trusts and foundations (92% compared with 47%) individual donations (84% compared with 50%) investments (33% compared with 9%) there may be opportunities to consolidate some income sources, especially where resources are stretched thinly to cover fundraising from multiple sources |

*this finding may be biased by the sample, but is also reported by the stakeholders and in NRF research

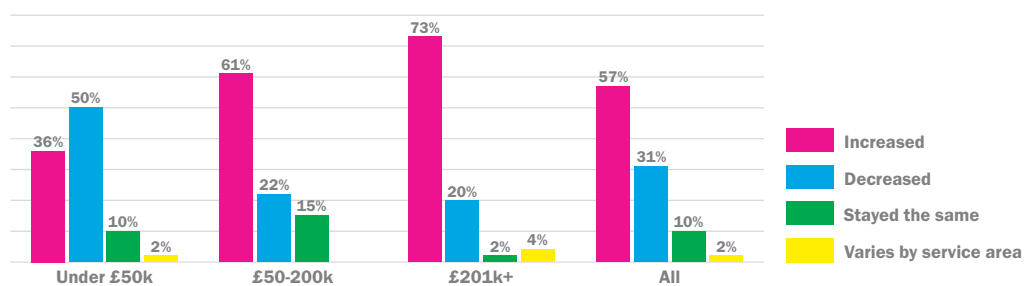
5. TRENDS IN SERVICE DEMAND AND FUNDING MIX

What was happening to the demand for services during this time of austerity and spending cuts, in a region with high unemployment and many pockets of severe deprivation? (Fig. 15)

- Almost three-fifths (57%) of organisations reported an increase in demand over the last 18 months.
- The largest were much more likely to record an increase in demand, (73% compared with 36% for smaller organisations).
- Only a minority (13%) saw increased resources available for income generation and fundraising last year, regardless of organisational size.

NRF research found expectations of significant increases in demand are much higher in urban areas (around 22%) than in the predominantly rural counties of Cumbria and Northumberland (11% and 14% respectively). This may be related to differences in areas of interest and beneficiary, but would require further exploration.

Figure 15 Trends in service demand by income band



Impact on services of recent changes in the operating environment

The results raise questions about how increased demand is being addressed, where cuts are being made or there is service change, and capacity to plan for a changing environment. It was not in the scope of the research to gather hard evidence on these, but the stakeholder interviews provided some useful pointers.

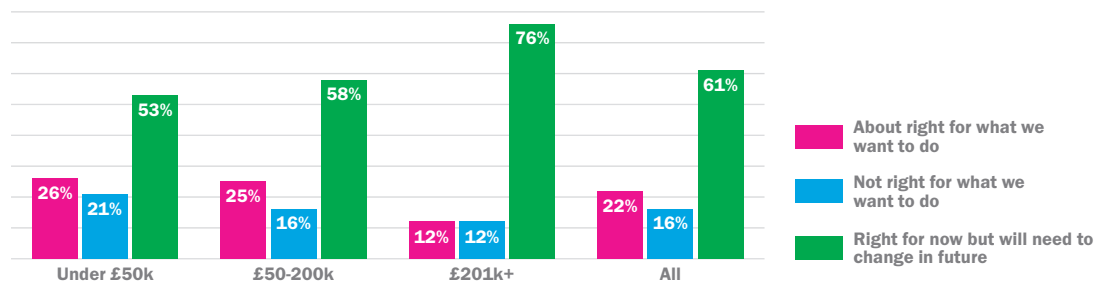
- *Welfare services*, particularly the provision of information, advice and guidance to a range of beneficiary groups, were felt to be coming under a double pressure of reduced opportunities for funding coupled with increased consumer demand. However, this does not apply to all areas of welfare activity. For example, there appeared to be a rise in the provision of financial literacy support and debt management advice, often through corporate social responsibility programmes.
- *Community support organisations*, particularly smaller and well-established ones, were surviving reasonably well, and largely unaffected by a changing funding environment, though may be facing other challenges such as maintaining local involvement in an environment of high unemployment, family stress or older populations. In contrast, intermediary organisations which support the third sector (such as local Council for Voluntary Service (CVS) or other infrastructure organisations), are known to be struggling across the region. Most have become much smaller, some have closed and more may follow. There was not always sympathy for such organisations as understanding of their contribution was not clear.
- *Youth organisations* are not seen to be in crisis, but there is concern that they may be coming under significant strain due to the diminution of funding in local authority youth services, at a time when service pressure may have increased through high levels of local youth unemployment.

Funding mix and change

The survival and growth of important community services depends on organisations being able to deal with the changes taking place in the funding and demand environments. Specifically in relation to statutory funding, it was found in the NRF study that just 13% of organisations expected an increase, with 43% expecting a decrease, of which one-fifth thought it would be significant. Levels of optimism about the future of contract working varied across the NE. In the more urban Tees Valley 48% expected contracts to increase or increase significantly, while in County Durham and Northumberland, around 28% thought contract working would increase, and 16% expected a decrease in the next two years.

How do small and medium organisations view the appropriateness of their current funding mix for what they want to do now and in the future? The results echo perceptions that the effects of change are being felt, and more change is inevitable, but has not yet hit hard. The vast majority of organisations (77%) either think their funding is not right, or that it is right for now but will need to change in the future. Results varied by size from 74% amongst the smallest organisations to 88% for the largest income band. Just over one-fifth think their funding is about right. (Fig. 16)

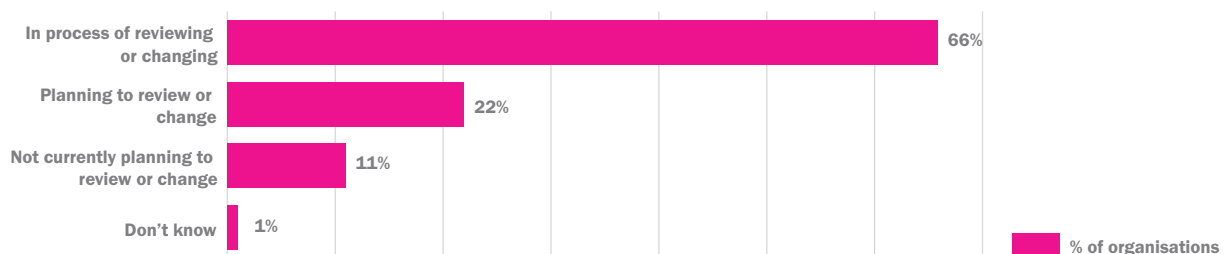
Figure 16 Appropriateness of current funding mix, by income band



Planning and motivation for change

While organisations have a strong sense of need for change, they vary in the extent to which they are tackling their funding mix. (Fig. 17) Around one third had taken no or few steps towards change, of which 11% were not currently planning to review or change their funding mix, while 22% were at the stage of planning a review. Two-thirds said that review or change was under way. Large organisations were much more likely to be currently reviewing or changing the funding mix (81%), compared with the middle band (64%) or the smallest band (53%). A big challenge in getting ahead of the game may lie with the lower two income bands where the proportion who think funding needs to change substantially outstrips the proportion who are under way with change.

Figure 17 Planning around income generation



Base: all who think the funding mix is not currently right or will need to change in the future (140)

Looking across organisations of all sizes in the region, the NRF study found levels of planned or actual change were rather low. On average, only 14% of organisations had changed their practices, with a further 11% planning to do so, and the study queried whether this indicates a perceived stability in their situation or a lack of awareness of future challenges. It found that just less than one third of organisations had taken action to increase earned income, and over half had no such plans, with little difference across the regions. The interviews with charities carried out for this report also revealed how some ideas were at a fairly early stage in the planning process.



We're looking to create a community interest company (CIC) in order to generate income for our organisations. We'd need help with the business plan for this. In terms of funding applications we're ok, apart from if we're applying for government funding because it is difficult to complete these and they are unclear."

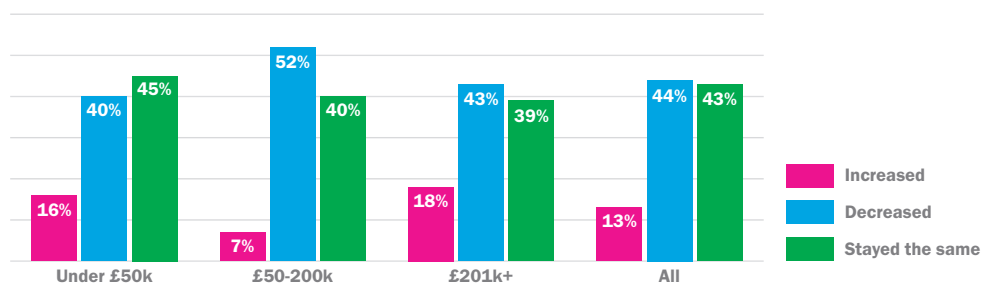
6. APPROACHES TO INCOME GENERATION AND FUNDRAISING

In response to the opening question of the survey, the vast majority (85%) of respondents said they thought there is a current need to strengthen fundraising and income generation in the region. So it is important to assess current attitudes and approaches in this area of organisational activity, how far it is an organisational priority, and how this shows itself.

Resources for income generation and fundraising

One factor which might inhibit review and development of income generation may be the finding that 44% of organisations had seen a decrease in the resources for income generation and fundraising over the last 18 months. (Fig. 18) Forty three per cent said they had stayed the same, while just 13% said they had increased. In the middle band, only 7% had seen an increase, around half of the level in the bigger organisations. This band also saw the highest proportion with decreased resources for income generation.

Figure 18 Change in resources for income generation and fundraising by income band



Reasons for this could lie in the general squeeze on spending, less external support such as from local authorities cutting back on grants staff and support, or lower priority being attached to planning, managing or delivering income generation than other areas of organisational activity.



.....having to make cutbacks and things, personally speaking I'm doing about 15 jobs at once so the time that I've got to actually be able to concentrate on the fundraising has been put under more and more pressure."

"We've got to look at how we fill that (funding) gap, and we really need more resources to actually do fundraising and income generation because with what we've currently got, we're spending all our time just delivering the contract."

Approach to income generation and fundraising

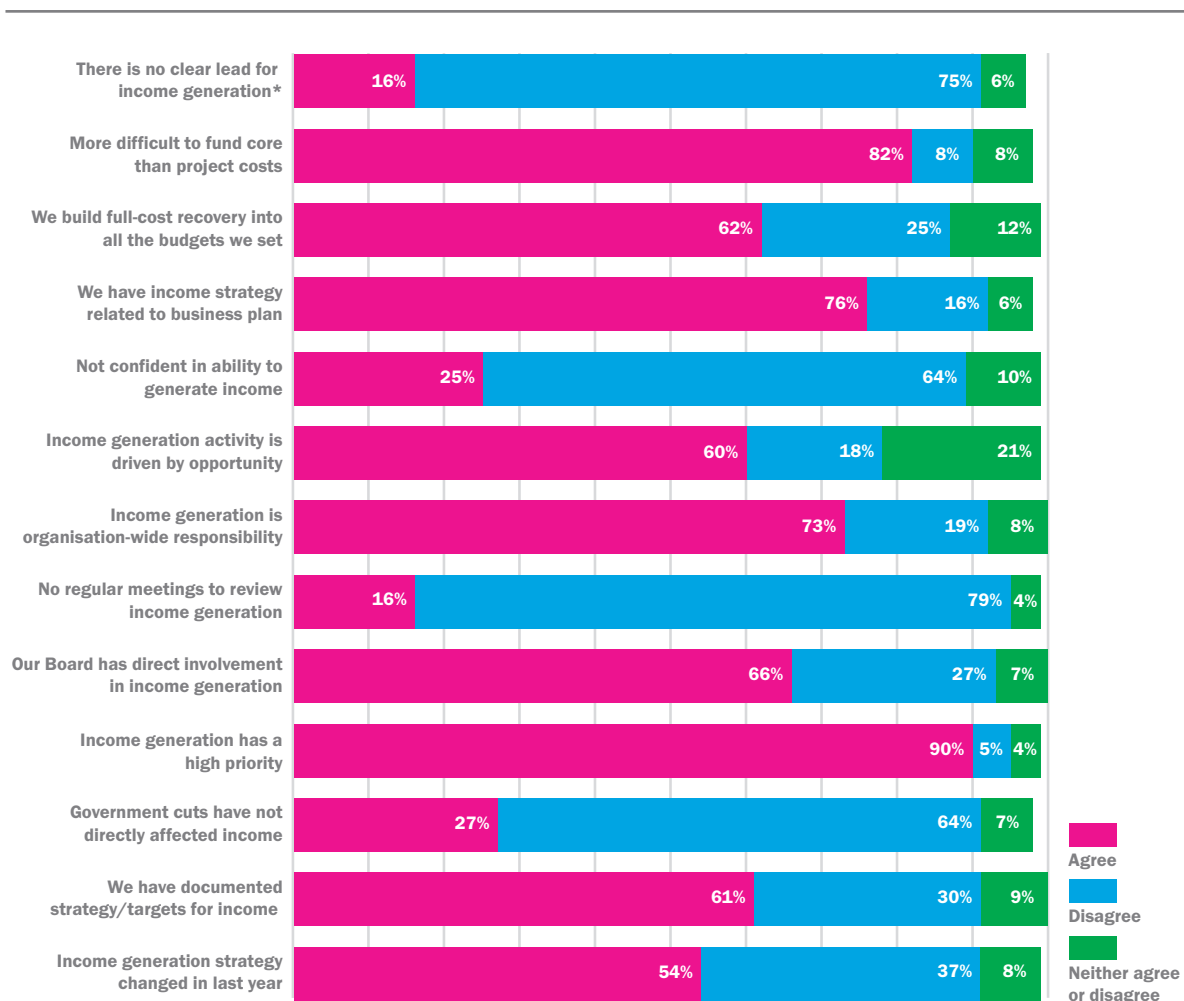


Sometimes when I find something (to apply for), by the time I've found it, there's a short deadline to get it in, so it's more of a rushed process and it's not till afterwards that I've thought 'this is what I needed to do differently there'."

With a high dependence on statutory funding in the NE, and almost two-thirds of organisations (64%) in agreement that government spending cuts had directly affected their income, are effective organisational structures in place to plan and manage resource generation? To explore approaches, respondents were asked how far they agreed or disagreed with various statements about income generation and fundraising in their organisation. (Note: In the table below, 'agree' and 'agree strongly' and 'disagree or disagree strongly' responses were combined, and the statements shortened.) (Fig. 19)

The research indicated that fundraising and income generation are perceived as organisational priorities, and have a defined place within organisational process, but also that for some there is considerable room for the development of fundraising and income generation functions. Weaknesses in the management of income generation could easily be exacerbated when resources get tight, or change becomes an imperative – in other words when strong leadership in income generation is most needed.

Figure 19 Organisational approaches to fundraising and income generation



*In the questionnaire items always referred to 'income generation and fundraising', or vice versa.

Areas which are generally positive

- The vast majority say that income generation has a high priority, and two-thirds of these (67%) were in the process of reviewing or changing the funding mix. (Though numbers were small, half of those who felt income and fundraising did not have a high priority, had seen a decrease in their income.)
- Around three-quarters (73%) say it is an organisation-wide responsibility, and they have an income strategy related to their business plan. This group was more likely to expect an income increase than those who felt they did not have such a strategy. Around three-quarters disagreed that there were no regular meetings to review income generation, or that there is no clear lead for it.

Areas posing a common challenge – costing

- The difficulty of getting core rather than project costs funded was agreed by 82%. Yet how can organisations survive effectively without covering their costs? At times there seems a collective, even collusive, applicant and funder amnesia in this area. Some organisations noted that Lloyds TSB Foundation and the Garfield Weston Foundation are exceptions who cover core costs.



....But the majority of grant-funding doesn't cover salaries, it'll cover core costs or capital for buying equipment and things, but you've then got to find money for salaries."

.....

"A lot of funders will cap the amount they'll pay towards core costs, or they don't want to pay certain core costs or running costs, and they want to just pay direct project costs."

.....

"When trusts are looking at an application for funding, I think a lot of them want to see outcomes; they want to see specific key objectives; they want to see a detailed analysis of how many beneficiaries will be supported – who are they, what they will get out of that particular initiative. It's difficult to do that if you want to fund your admin manager, the person that manages finances and does the payroll...those are essential parts of any kind of organisation but they're not things that people necessarily want to fund."

.....

"There's just not enough funders for our type of charity, we are too general – our transport helps lunch clubs, schools, elderly clubs, and disabled (we provide a door-to-door service for disabled and elderly, it's critical for getting older people 'out' and into the community). There really needs to be a change in funder attitude – projects that provide vital support to communities and work, week in, week out, can't be dressed up as 'new' – they're 'old' projects but successful projects. We've had one youth group using our minibuses for years twice weekly – funders can't see the value in sustaining that, in our kind of deprived area."

- Full-cost recovery is problematic, and just under two-thirds (62%) build it into budgets. Some feel that assessing what costs funders will accept is a guessing game for applicants, or would settle for any funds rather than full-cost recovery if necessary.



You don't normally have to clarify details of what the budgets are, so the organisation goes on what the funders say they'll pay for."

Some struggle to understand and control costs, or view charging full costs to clients as unethical, a form of profit-making. There is uncertainty about costs not seen as directly linked to project delivery (photocopying, Investors in People, IT). One organisation, having failed to include full-cost recovery historically, now lacks the confidence to begin. Some see apportioning costs across multiple projects as laborious and time-consuming, though others clearly have a grip on the area.



It's also about how you get smarter at apportioning your core costs across the work."

Areas where some organisations are ahead of others

- Over one-half said their income generation strategy had significantly changed recently, and this occurred amongst both those who anticipated an increase or a decrease in their current funding: change could present a response to decline as well as to a growth challenge.
- Over two-thirds have a documented strategy (61%), and this was found to be related to other indicators like reviewing the funding mix in the last year (72%), and expecting change in income, upwards or downwards.
- There is direct Board involvement in fundraising and income generation (66%), though this was not linked to an expectation that future income would increase, nor to having instituted any review or change of funding mix. The smallest organisations were most likely to say their Board was involved, possibly reflecting limited resources in these organisations (72%, compared with 51% for the largest).
- Just under two-thirds disagreed their organisation was not confident of its ability to generate income, leaving a substantial one-quarter of organisations (25%) who agreed: this group was less likely than others to expect an increase in income, and more likely to expect a decrease.
- Three-fifths agreed income generation was driven by opportunity, and these were more likely to expect future income to decrease. This finding is possibly not surprising as new funding opportunities are a constant feature of the voluntary sector environment, but it gives a picture of funding determining activity rather than the other way round. Just 18% said funding was not driven by opportunity.

Adapting to change

Reflecting these survey findings, stakeholders also reported that adaptation to change varied across the NE sectors. Many larger local organisations have been effective in anticipating and planning for change, and are managing a period of decline in some funding streams whilst seizing new opportunities. Those working in community, youth or welfare areas are not so much in crisis, as ‘hunkering down’ during a period of austerity. Some medium-sized organisations closely associated for long periods of time with major government programmes have had more difficulty in engaging with different ways of thinking and funding, and may be under some threat of closure or significant downsizing. At the time of writing this report there was an urgent alert about a threatened closure. Others have been able to lever funds from new sources, sometimes in partnership, reviewing their mission or pursuing it more vigorously, and becoming more enterprising. Innovations usually centre on associating what organisations do well now with new programmes and/or contracts in related areas. New social enterprise activities are not a panacea on their own, and successful larger local organisations still rely on a wide range of funding sources, albeit with lowered expectations. Some organisations, however, seem to have less capacity to catch up with changing demands from funders and their increasing expectation of evidence on the potential impact of investment. Grant applications often depend heavily on the intrinsic value of the organisation’s work, rather than clarity around approach and outcomes. Others seem always to survive in a relatively ‘hand to mouth’ fashion.



(We’re aiming) to have more regular sources of income that we can rely on... and one-off payments to get back to the black.”

“...a more strategic approach to development (would help), and more commercial opportunities to increase revenue and to develop, for us, technology and heritage. Maybe a wider region approach...”

Role of Boards and trustees in change

Risk-aversion amongst trustees is perceived by some organisations as a barrier to their development. It is an issue widely presented in social investment literature as a barrier to social enterprise development, but also difficult to tackle as it can be easy to make trustees the scapegoat for projects whose business feasibility, as the quote overleaf illustrates, is untested, and where organisational reserves are relatively small. There are small pots of investment money around (such as Pre-Feasibility Grants of up to £10,000 to build capacity to help compete to deliver public services and/or own and manage assets offered by Social Investment Business in partnership with Locality), but for some funders an organisation with reserves of six months’ operating costs is ineligible for further support.



Sometimes you see an opportunitybut we either have to kind of dip into reserves in order to provide development money to see whether or not there's a project that might possibly develop some income, or we have to try and find external expertise that comes at a cost.... It's very difficult (to be entrepreneurial) when we have a group of trustees who are relatively risk-averse. So when you are looking at a brand-new social enterprise initiative that perhaps needs a lot of development money and which might not in the end pay any dividends, there is some reluctance to fund those initiatives."

.....

"Obviously we do consider service development, but we haven't got free cash available to look at projects to expand, or develop a service."

Trustees can play a strong role in organisational development, and one organisation noted;



Our Board are supportive, they give strategic direction, governance; and they sometimes look over funding bids in a constructive way, though they by no means write our bids!"

Generally, however, the trustees of the organisations interviewed had little experience of fundraising and income generation. Board members with personal wealth and business contacts helped in areas such as support for corporate events, but generally their role was in overseeing decision-making rather than in taking ownership of planning around income, or directly promoting and seeking funds for the organisation externally. Composition of Boards is a challenge for some organisations where members are recruited, for example, to represent service users or stakeholders, and not necessarily to run a business. Organisations try to match trustee backgrounds with skills gaps, but aim to recruit a wide range of professional expertise, such as legal, Human Resources, finance, mental health care, housing etc. Fundraising skills are just one area amongst others, though are sometimes directly sought.

Some find getting trustees difficult, although in the NRF study this was not found to be a general problem. Practice around trustee recruitment varies. For example, potential trustees may put themselves forward, be recruited by word of mouth, or elected from the membership (serving for only two years), and some have been on the Board for 25-30 years. Organisations acknowledge that a new approach to trustee recruitment might be needed to find the right people for the challenges of the new funding environment, but some anticipate difficulties due to differences of culture and understanding around the role and responsibilities of trustees.



Initially doing some training would help, just to make the rest of the committee broaden their outlook: they think 'just do a coffee morning here and there, and just local events'. What they think we can manage with."

The next section of the report looks further at organisation's resources for change, and evidence on what might help them to move forward.

7. RESOURCES FOR CHANGE

Current resources

Organisational change is demanding, particularly where necessitated by forces in the external environment over which organisations feel they have little control. Do they believe they have sufficient key resources to make the most of future fundraising and income generation potential? The research found organisations had more confidence in their professional and social capital, than their material resources. (Fig. 20)

Positive capacities

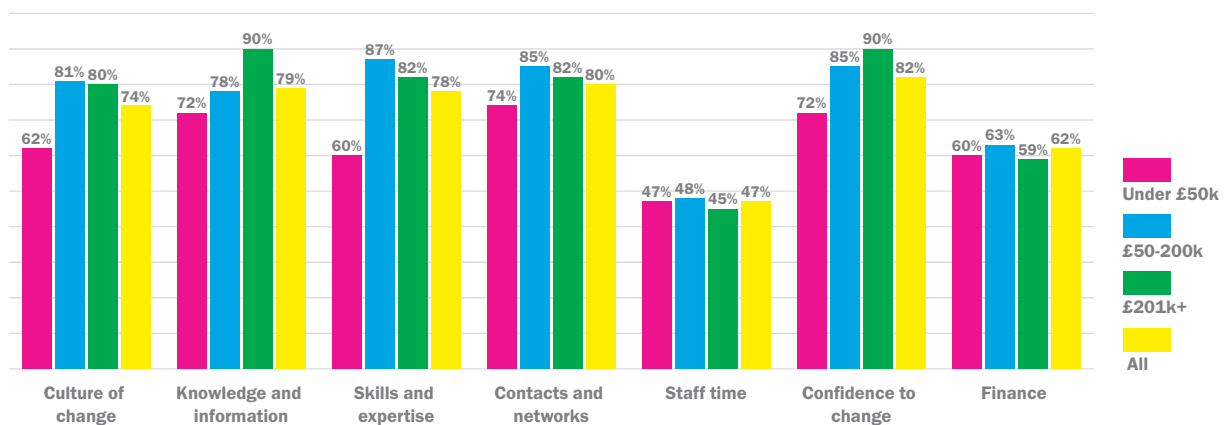
- Almost three-quarters said there was a culture of change in the organisation (74%).
- Almost four-fifths said they had the knowledge and information (79%), skills and expertise (78%), contacts and networks (80%) to change.
- Over four-fifths (82%) had the confidence to change their income generation and fundraising.

Gaps and challenges

- Under two-thirds (64%) said their organisation was confident of its ability to raise funds.
- Under half felt their organisation did not have sufficient staff time (47%).
- Over one-third (35%) felt the organisation did not have sufficient finance to invest in it.

Confidence and knowledge were highest among the largest organisations, the middle band was highest on skills and expertise, and the smallest organisations were the least likely to say they had sufficient resources in all areas except staff time.

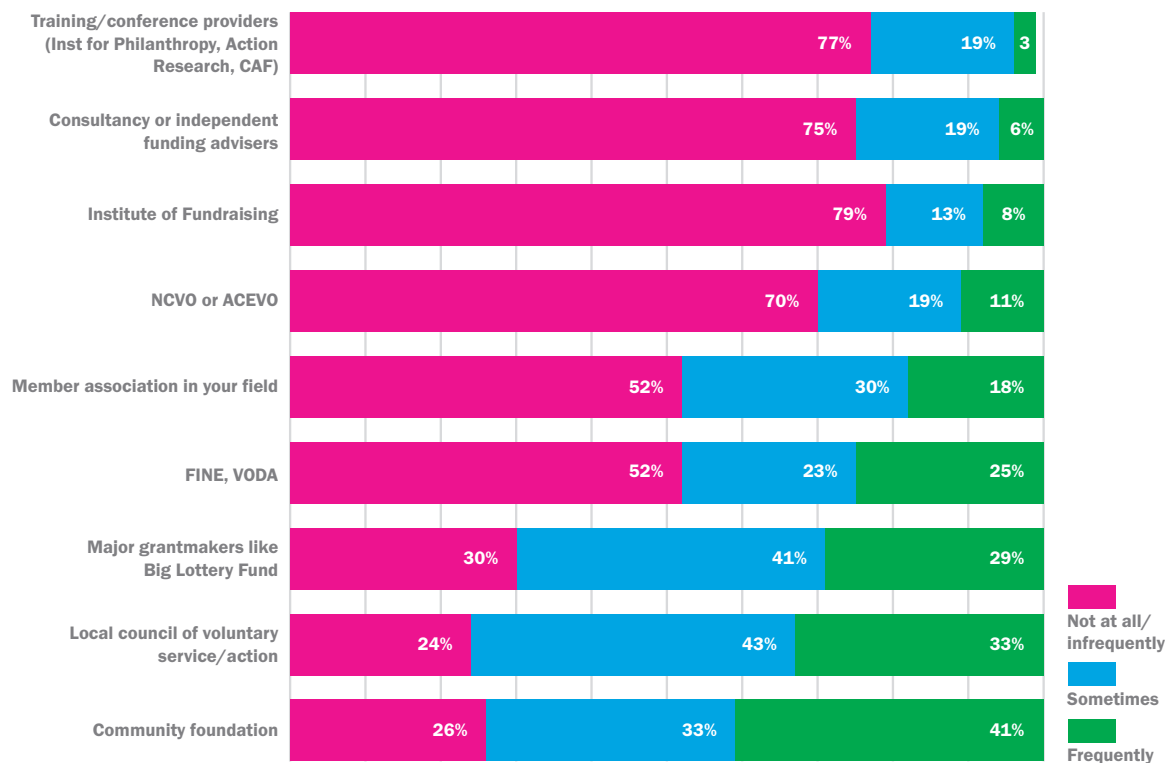
Figure 20 Frequency (%) of organisations saying they have sufficient resources for change, by income



Information and access to advice

The value of timely and up-to-date information on funding opportunities, as well as support in writing applications are continuous themes. How much use is made of the existing infrastructure for this? Results indicate that the localised sector is much more inclined to access help from local than national agencies. (Fig. 21) Community foundations have a strong presence in this area, and are already involved in awareness-raising. A majority (74%) access advice from a community foundation, with two-fifths (41%) saying they do this frequently. Other local bodies like CVS, FINE, VODA and specific member associations are all playing a substantial role in providing information support, and are more frequently used than national bodies. The exception is major grantmakers such as Big Lottery Fund, and the findings show the popularity of direct contact with funders. Three-quarters make little or no use of paid consultancy, possibly because of cost.

Figure 21 Frequency of accessing fundraising/income advice from external bodies



Knowledge and attitudes to charitable foundation applications

How might organisations in the NE make more of the opportunity to apply for funding from foundations? Results show, similar to findings for advice and information sources, that a majority (69%) would be very likely to approach local or regional trusts and foundations, and that the likelihood of approaching large national trusts and foundations is very much lower, at 40%. (Fig. 22)



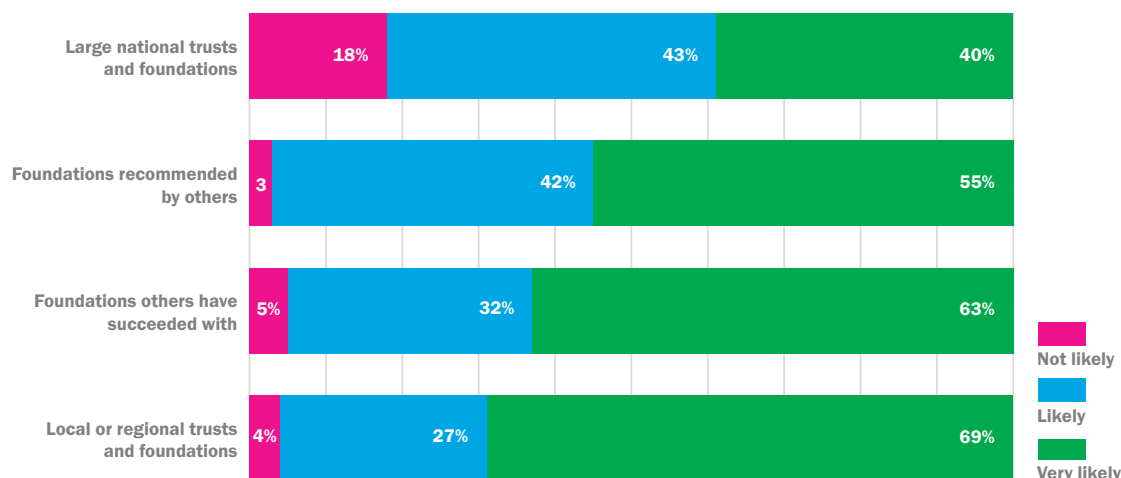
We probably feel more confident with more regional funders, like funders based in the NE, because it's highly likely that we've got some sort of relationship with them, like the community foundations – we're more confident in actually approaching one of the grant managers and having a chat about a potential application to submit, than a national fund."

Personal connections encouraged foundation applications. The likelihood of approaching foundations goes up if other peer organisations are known to have succeeded with them (63%), or if recommended by others (55%). Respondents with previous contact of any kind with the Garfield Weston Foundation were much more likely to approach foundations, particularly large national ones, than the 'non-contact' group.



.. It's about having the confidence just to be able to approach them, and check about a fund, just because we've got that relationship with them - they've been out to the Centre, they've seen the work that we deliver."

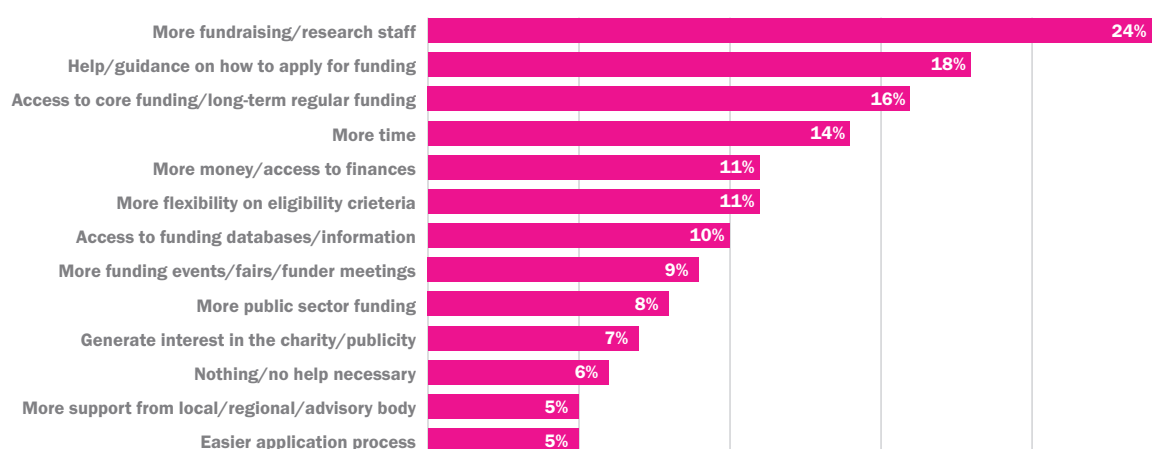
Figure 22 Likelihood of approaching different trusts and foundations



Future resources - what would help strengthen income generation and fundraising?

In an open-ended question on what would help most to strengthen income generation and fundraising, organisations continued to emphasise tangible resources such as staff time, information, advice, support with applications, opportunities for face-to-face funder contact, and to communicate their work. (Fig. 23)

Figure 23 Frequency of options which could strengthen income generation and fundraising



Note: other areas mentioned by a few included faster funding decisions, encouraging more people/businesses to give to charities, partnerships, strategy/planning, more volunteers.

The single largest response (24%) was for more fundraising staff, which can indeed generate huge returns. One interviewee said that the Board of their organisation took a gamble and used £25k from reserves to employ a Business Development Manager, with the result that the organisation now has five extra staff and won a substantial Lottery bid of £1million. Another of the examples given was where a senior manager tried to build internal fundraising capacity amongst managers in other areas, which brought its own challenges.



I do have a few staff – department managers – and I'm trying to build their capacity for fundraising, so getting them a bit more involved in trying to raise smaller grants. I just have to keep a check on where they apply to because they all have a habit of trying to apply to the same funder at the same time."

There has probably long been under-investment in fundraising and income generation capacity in the voluntary sector, which have been dominated by short-term and opportunistic funding targets.

Catch 22

The 'catch 22' is that if organisations lack sufficient staff or financial resource to invest in change, with all its risks, then their capacity remains untested. This makes it difficult to put forward a funding case for investment in change. With such a dominant focus on fundraising resources, other important areas where development is needed like market research, new business opportunities, strategic planning, managing resources, new ways of working through partnerships or new media or re-thinking the mission, got little mention in the survey. Yet the charity interviews revealed many examples of different ways in which individual organisations are creating transition plans, and proactively managing change.

Examples of steps taken by organisations in NE to manage funding change

- Employing specialists in fundraising, marketing or business development, ensuring funding is in place for recruitment
- Placing more emphasis on community donations and community fundraising events
- Imaginative high-profile events aimed at corporates, and raising unrestricted income which can be diverted to necessary areas
- Devising a social enterprise model for an income-generating service or product, such as a café specifically for service users, their families and friends, and as a base for further fundraising
- Suspension or reduction of some services, and redundancy
- Consolidation, merger and organisational re-structure



We've had to change virtually everything that we do, other than the very, very frontline work. Everything in the background has had to restructure and change in order to deliver the service with the money that we have got."

- Reducing overheads through moving to cheaper premises for service delivery
- Introducing a charging structure for services not funded by the Local Authority
- Negotiating with Local Authority and Clinical Commissioning Group to raise fees



They like our charitable status, as opposed to private providers where you have directors who are taking a salary out.... If we achieve a surplus, it's fed back into the charity to benefit (clients) and their families straight away."

Alternative and new approaches

Partnership and collaboration Many organisations believe that partnership and collaboration are the way forward, particularly where it enables them to go for bigger tenders. Some organisations have already gone down this route, and others were keen but did not know how. One example involved an ethnic minority centre partnering with local private organisations to deliver services together, with the centre providing the route into the community and encouraging take-up of services. Other examples involved becoming part of consortia which might include organisations offering similar services, the local CVS or agencies which already have particular income-generating expertise. Trading projects included using the staff's own expertise with clients to offer training to others, selling goods produced by training and occupational projects in which beneficiaries are involved, and exploring the feasibility of offering services on a fee-paying basis. Consortia not only provide a platform for bigger contracts, but also for saving costs in training, IT and databases, or potentially drawing in further partners and setting up as a social enterprise.



Commissioners and Local Authorities are looking more towards partnership working, rather than individual organisations trying to go it alone and do everything themselves. Between us all we're a lot stronger and we have a lot more resources."

"[Making collaborative applications] is about playing to your strengths.... being clear about who within the consortium is best placed to deliver on what piece of work, and that doesn't mean that that group will necessarily be leading on the bid."

One key success factor mentioned by organisations offering new kinds of services and charging fees is that they must be able to ensure high quality and good value for money.

Some organisations are in looser collaborations, particularly around policy and advocacy work, but still in competition with each other for funding. In the future many hope to do more.



When you're competing with people for things, they're difficult to then have any sort of genuine partnership with."

".... it's something all voluntary sector organisations need to look at, so that you don't end up with two organisations doing the same thing. If you both need some funding to do something, it makes more sense that you get together and take that funding together."

New initiatives and enterprise The development of new enterprise and initiatives to produce earned income (other than from statutory authorities) is at an early stage. Little direct income is being generated, but organisations realise they need to change and are exploring ways to develop income-earning activities, including making better use of assets such as facilities and expertise. Many feel they need additional resources and skills to develop a business, and have no tangible sense of when new initiatives might materialise. There are capacity issues in moving ideas forward, because rationalisation has left organisations having to deliver the same volume of work with fewer staff, and frontline operational work is the priority.

Others are trying to run new earned income initiatives which pay their way, but finding this difficult to do.



We have in the past had approaches (to make use of our facilities), but usually it isn't worth the extra time and effort....people wanted to get them for nothing, because that's the expectation when a charity offers something.... why should we pay a charity? It was the same with a minibus: I sought a mileage charge that reflected maintenance etc, and nobody wanted to pay... We came to the conclusion that trying to do this, for our organisation anyway, had the potential for 'mission drift', it would be a distraction, and would not earn additional worthwhile income."



We have looked at income generation and possibly ‘selling on’ our services. An employer wanted us to provide financial capability training to their staff. It seems the nature of what we do, but with the complexity of this area, the supervision and oversight which staff need to be fully trained, the administration and suitable premises etc, this just could not work...our service would need to be re-designed to do such things...it’s a distraction. The current demand for our existing services just can’t be met...we have also looked at community fundraising projects, and this could be developed but it’s fizzled out a bit, due to resources/capacity constraints.”

The main area of successful earned income is rents. Such incomes tend to be small, and increasing rents is problematic because of the low incomes of the customer base. Property-based assets also bring maintenance costs. Organisations also face tensions in business development. One gets 45% of its income through hiring out various facilities, but feels a tension between profit-making and service-providing aims.



It’s not our remit to make a profit and we would have to set up a trading company if we were going to do that. But obviously we like to see our projects break even at least.”

There are also perceived tensions between maintaining or investing reserves, and between original mission and funder or market demand. Organisations fear going ‘off brief’ in the quest to become all things to all men, diluting their identity and reputation for delivering a particular service well. At the same time, positive models for new ways of working which combine mission and financial sustainability are recognised.

Examples of successful new local models

- a fast expanding social enterprise focused on car repair and maintenance carried out by ex-offenders and using that model to generate income
- an organisation which used slack periods in its café trade to develop a new chocolate catering business, now selling at national level, and providing income for the community centre
- a small local drug and alcohol charity which has opened its own charity shop
- a local youth project providing region-wide services



They look at their services, how they can market their services, being careful about the cost of those services and the cost of people’s time.”

- a project for women fleeing domestic violence, which over the last 2-3 years has been buying up properties, doing them up and renting them out to the women, generating income and hoping to be sustainable by end 2014
- a local CVS, a third sector support organisation, which has developed a Community Interest Company and which has achieved health contracts all over the area
- a local youth charity has set itself up to sell sports memorabilia online, with the young people involved in researching and selling the goods
- a support organisation for a specific client group



We hire out rooms, offices, and have a catering service. We are getting better at this every year and it provides valuable ‘unrestricted’ income. The space is all modern, attractive. These services are why we need a development officer....”

8. BUILDING THE FUNDING BASE - CONCLUSIONS AND IMPLICATIONS

The key issues explored in this study of small-medium organisations in community, youth and welfare were:

- In a context of reduced statutory spending, what is the current funding experience of these organisations and what underlies a low level of applications to charitable foundations?
- What would help support income generation, and build a sustainable future funding base in NE?

The research looked at factors in the external funding environment as well as internal organisational resources which might influence funding outcomes. Its findings show that both perspectives are important for understanding the demands on current organisations and where additional support could make a difference to plans and aspirations. This last section of the report sets out conclusions and implications.

Overview of findings

Organisations' awareness of, and ability to seek, potential support from foundations is not an isolated issue. It is connected to other challenges arising in the current environment, both for the sector and for individual organisations. Some of the issues are not new, but the combined effect of radical change in the funding context, and tight organisational resources, has increased their significance and urgency.

Factors related to the level of foundation applications include issues of sector capacity and infrastructure region-wide, the stretch on internal resources to meet the changes in demand and available funding, and the time, new skills/expertise/relationships needed to put funding and service delivery on a new footing.

Organisations are at different stages, and currently need different kinds of support. Some are well ahead, and have made a successful transition from which future growth can be encouraged. Others are not so far ahead with planning for change, and face challenges of confidence, know-how or internal capacity. A polarisation appears to be emerging between organisations which have adapted with success and those still coming to terms with change. Scale of resources is a risk factor. Organisations with fewer resources struggle more, though this did not apply to the smallest voluntary-run community groups.

The vast majority of organisations see their greatest strength as their service delivery. They see themselves as good at service delivery and rely on this to attract funding. They feel these should be the indicators of their strength as an organisation and therefore be enough to generate more income.

Conclusions on current funding situation

Speed of adaptation Voluntary activities in community, youth and welfare in the NE have been strongly shaped by a long history of statutory and quasi-statutory funding flowing through multiple streams. Almost two-fifths have seen a recent decrease in income, and it may be particularly difficult for them to adapt to a new funding environment and the requirements of different funders, or to adapt quickly. This would suppress the level of applications to new sources such as large charitable foundations.

Decrease in resource At a time of huge change in the funding environment, 44% of organisations say they have experienced a decrease in the resources available for income generation and fundraising. This rose to 52% in the £50k-£200k range. Shortage of resources, and a prioritisation of operational services could also explain low levels of funding applications. Such disinvestment would also help explain why organisations overwhelmingly said further resource, advice, information and support around income generation would help them most. The plea was fairly general, however, and only a few specified the need these might meet.

Significance of scale Within the boundaries of incomes in this study, pressures seem to be experienced most acutely, although not exclusively, by organisations in the study's middle band of £50k-£200k income. Many are seeing increasing demand, but have experienced an income decrease and are expecting further. The largest organisations (£200k-£3million) are most likely to be reviewing their future funding structure, and to have started planning for it, but also most likely to be experiencing increased service demand.

Weak infrastructure In some of the areas of highest social need, a weaker voluntary sector was likely to be important in explaining low levels of applications, lowering comparative figures for the region overall.

Diversity of funding sources Considerable diversity exists in the funding base, with an average of six funding sources, but only statutory funders and charitable foundations were main sources of funding, and only for larger organisations. Diversity is potentially a strength or weakness. It can maximize fundraising opportunity, but also stretch capacity very thinly, preventing specialisation. This could be another explanation for why some organisations did not explore applying to funders who were new to them.

Strong local focus Both in obtaining funding advice and grant applications to foundations, there was a strong preference for local and familiar institutions. Organisations seemed reluctant to devote resources to applications fraught with unknowns. Many felt more confident with foundations which knew their work. This would also suppress applications to large national foundations other than those known in the area already.

Varied access to information Knowledge and understanding of foundations was mixed and at times conflicting. Misinformation would also inhibit applications.

Board capacity Trustee Boards vary in skills to deal with the new funding environment. Some organisations have difficulty recruiting trustees, or are constrained by governance rules around, for example, term of office or user representation. Income generation is only one expertise needed, and not necessarily a priority.

More scope for philanthropic fundraising Events fundraising is popular and widespread, but not major donor and community fundraising, at a time when wealth in some parts of the region is growing.

Emergence of innovation and adaptation A body of knowledge and experience in tackling the various challenges and opportunities facing voluntary organisations has already built up in the region, but may not be widespread. Partnership and collaborative approaches are clearly important, and other initiatives include employing additional business development capacity, investing in new social enterprise activity, holding high-profile fundraising events, negotiating new charging structures with commissioners, organisational re-structuring or merger, moving to cheaper premises to reduce overheads, or cutting back services.

Implications for building a sustainable future funding base

The implications which emerge from the findings on how funders and others could help build the funding base fall broadly into three groups, set out below.

General foundation measures

- Establishing more connections with potential applicants at regional and localised levels, whether direct, or through intermediaries, in order to build knowledge and confidence around applying.
- Reviewing application procedures and rules mentioned as barriers, and which included criteria around reserves, the complexity and level of detail required in application forms, demands for detailed outcomes data, length of time before application results were given, rules around what can be funded, and part-funding of projects, leaving some awkward corners to be funded elsewhere.
- Exploring options for tailoring or targeting support towards organisations in geographical areas whose existing voluntary infrastructure seems weak, and/or ways of encouraging the development of new infrastructure.

Core and development support Organisations indicated a range of core and development support which they believed would facilitate a transition to new ways of operating, generating income or delivering their mission. Several identified examples and models to emulate. Some know what they would like to try to do, but lack staff and other resources to make things happen. Others lack confidence or relevant expertise, and need help with the initial bridging steps. Few organisations are accessing dedicated help from elsewhere, partly because of cost. New small grant schemes, possibly managed locally, are likely to be more helpful than further generic capacity-building.

Support might include:

- flexible, 'patient' core or development funding not tied to specific project delivery and outcomes, for organisations with limited resources to invest in change or growth;
- access to flexible income generation advice and support, led by organisational need and adaptable to different stages of transition, possible including: access to 'safe' places to develop or evaluate embryonic ideas, or review the progress of new initiatives already in place; expertise in business plans and budgets; support to scope potential markets; analysis of skills base, organisational assets and potential for service development; help and support for partnership or merger;
- access to further training and support around finance and budgeting;
- locally-based trustee and Board development in relation to funding and income generation;
- mentoring and knowledge-sharing by organisations which have introduced successful change;
- building the skills and knowledge base around income generation from philanthropic sources;
- ideas and information around new ways of working;
- shared initiatives in knowledge and skills-building, new income generation initiatives, and service-delivery projects.

Some re-balancing of grant support from project to core and development funding seems essential to maintaining a healthy voluntary sector at a time of greatly reduced statutory support. Many organisations are far from being able to attract alternative social investment. Transition and development funding over the next two years could be invaluable in ensuring that good organisations are given the best chance to continue to meet needs within their communities in the longer-term.

Thank you for reading, we hope you found this report interesting.
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